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C O N F I D E N T I A L SANTO DOMINGO 001642

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TAGS: [ENRG](#) [EINV](#) [ECON](#) [DR](#)  
SUBJECT: GODR LOOKS TO BUY SHELL RETAIL BUSINESS

REF: A. SANTO DOMINGO 1158  
[1](#)B. SANTO DOMINGO 1611

Classified By: Roland W. Bullen, DCM, Reasons 1.4(b), (d)

[1](#)1. (C) SUMMARY: Shell Company Regional Chairman Rafael Maradiaga told EconOff that the government has informed Shell it intends to purchase the company's retail gasoline business, the country's largest, for USD 190 million. The government has already signed a purchase agreement to buy Shell's 50-percent share in the national refinery for USD 110 million, and has until November 3 to make the payment. Maradiaga said that the government now plans to make an announcement on November 4 that it has purchased both Shell businesses in the country, and speculated that Venezuelan interests and capital may be backing the deal. END SUMMARY.

[1](#)2. (SBU) In mid-2006, Shell announced its intention to sell both its 50% stake in Refineria Dominicana (Refidomsa) and its retail gasoline business, the country's largest in terms of market share. After Shell's very public and at times acrimonious negotiations with multiple private sector bidders for the refinery business, the GoDR (which owns the other half of Refidomsa), announced its intention to buy Shell's stake in the company. (Note: According to refinery officials, the government was seeking full ownership in order to increase in the flow of oil from Petrocaribe. President Fernandez has also floated the idea of Venezuela purchasing a stake in the refinery. End Note) After a series of delays, the parties finally agreed on terms of purchase in August and established a 90-day grace period for payment of the USD 110 million, expiring on November 3.

[1](#)3. (C) At the same time, Shell has been attempting to sell its retail business, as well as its brand in the Dominican Republic, and had received two serious bids. The top bid, from a consortium led by the Grullon family, which owns the country's largest bank, Banco Popular, was USD 190 million, Maradiaga told EconOff. Maradiaga said the government informed Shell that the composition of that bidder changed, and the Coastal petroleum company became a party. He added that Coastal's participation worried the government because Coastal's oil and gasoline import facility in San Pedro de Macoris competes for Refidomsa's customers. He believes the government feared that if Coastal bought Shell, Refidomsa would lose its largest customer. Maradiaga told EconOff the government told Shell, "You can't sell the retail business to Coastal; we'll buy it,"

[1](#)4. (C) At the behest of GoDR Finance Minister Vicente Bengoa, Maradiaga said he made an offer of sale to the government, with similar terms as those originally discussed with the Grullon group. Shortly thereafter, and perhaps unbeknownst to the government, the Grullon group informed Maradiaga that the global financial crisis had caused credit difficulties and the parties made a new, less attractive offer to buy the Shell company. Nonetheless, Maradiaga had already all but

written off the sale to the Grullon group, noting that without the government's blessing, it could not go forward with such a large sale. The Finance Ministry, meanwhile, told Maradiaga during the week of October 13 that the government intended to buy the retail business (but not the Shell brand) and would announce the dual purchase on November 14.

15. (C) Maradiaga said he suspects that Venezuelan capital may be behind the purchases. He noted that in July, President Fernandez and Bengoa announced that Petroleos de Venezuela (PDVSA) might buy into the refinery in a capitalization effort to expand refining capacity in order to purchase more Venezuelan crude (Reftel A). Maradiaga told EconOff that the day before telling Maradiaga that the government would accept its sale offer of the retail company, Bengoa and Viriato Sanchez, a government engineer and member of the Refidomsa Board of Directors, flew on a private plane to Venezuela and back, Maradiaga added that he thought it was suspect that the government wishes to buy the retail business but not the brand. He told EconOff "They wouldn't do that if they didn't already have another brand in mind." Maradiaga also noted that PDVSA's retail brand Citgo could be the eventual buyer, which would help lock up a market for Venezuelan exports to the Dominican Republic.

16. (C) Maradiaga also said he was skeptical that the sale would go through by early November and noted with concern that "there is nothing on the calendar between now and then" when the two sides would discuss the details of the retail purchase. He noted that before Shell will release its stake in the Refinery, Refidomsa must pay 2006 and 2007 dividends to its shareholders (Shell and the government), which total USD 84 million. But the Refinery is unable to pay this amount until the government pays a USD 74 million debt it owes to Refidomsa. Furthermore, Bengoa recently announced that public revenue was lower than expected and the government has fallen deeply in debt to electricity generators (Reftel B).

17. (C) Comment: It is unclear where the GODR will find the funding to purchase the Shell retail business given the current fiscal deficit and inability to fund important sectors of the economy. However, the DR has benefited greatly from Petrocaribe and it is certainly possible that the government is seeking other opportunities to take advantage of this relationship with Venezuela, especially when other sources of credit are scarce. But in the meantime, if the government purchases the retail business with no concrete plans for private investors to buy it, it will be another burden on an already heavily indebted government. End Comment.  
BULLEN